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Japan

Solid Wood Products

Russia Announces Plans to Increase the Export Tax on Logs to 80 Percent

2007

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Report Highlights:

On February 7, 2007 the Russian government announced a new extremely high export tax aimed at controlling the exports of logs. The plan is to increase the tax incrementally in order to encourage the development of their wood processing industry and the export of value added products.

Includes PSD Changes: No
Includes Trade Matrix: No
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New Tax Rate

The Russian Government announced its decision on February 5, 2007 to increase the export tax on forest products as a new measure under the Russian Forest Law, which has been enforced since December 23, 2006. The standard export tax rate and the minimum required export tax amount for forest products are shown in Table. 1. When the calculated tax amount based on the percentage is below the minimum required tax, the higher amount will be collected. This is meant to counteract the practice of underreporting prices in order to avoid taxes.

Table. 1 Export Tax on Russian Wood				
Items	Rate	Jul.1 2007	Apr. 1 2008	Jan. 1 2009
	Min. Amount			
Softwood logs	%	20	25	80
	Euro/m3	10	15	50
Hardwood logs	%	20	20	40
	Euro/m3	24	24	50
Poplar	%	10	10	80
	Euro/m3	5	5	50
Semi finished products with bark thickness 15cm or less	%	10	15	50
	Euro/m3	20	25	80

The current export tax rate for softwood logs is 6.5 percent and the minimum export tax amount is 4 euro/m3. However, beginning on July 1, 2007 the tax rate will be 20 percent and the minimum export tax will be 10 euro/m3; then on April 1, 2008 these rates will go up to 25 percent and 15 euro/m3 and on January 1, 2009 they will go up again to 80 percent and 50 euro/m3.

For temperate hardwood logs such as oak, beech and ash, the tax rate and minimum tax will be higher. The rates for these products will be 20 percent and 24 euro/m3 from July 1, 2007, 40 percent and 50 euro/m3 from January 1, 2009.

For Poplar and semi finished products such as "genban" the rates will also be higher. The tax for these products will be 80 percent or 50 euro/m3, and 50 percent or 80 euro/m3 respectively after January 1, 2009.

Impact on Japan

Japan imported almost 5 million cubic meters of logs from Russia in 2006 (Tab. 2). Use of Russian wood by the Japanese plywood and lumber industry will be impractical if Russia actually implements the new tax rate as announced. The Japanese plywood industry currently uses 90 percent of Russian larch imports to Japan. Although the percentage of Japanese species used in plywood increased up to one million cubic meters last year, the majority is still Russian. Possible reactions that might be taken in Japan are as follows:

- The plywood sector may increase the ratio of Japanese domestic species used.

- The plywood sector may seek other log imports such as radiata pine or douglas fir.
- Japanese may invest in the Russian lumber industry directly.
- The Japanese building industry may find a replacement for larch plywood such as OSB, MDF, particleboard and other structural panel products.

Tab. 2 Japanese Log Imports from Russia Unit: 1,000 m3					
HS code	Log	2004	2005	2006	06/05 %change
440320100	Pinus spp. (pine)	1,766	1,233	1,340	8.76
440320300	genus Abies and genus Picea (fir and spruce)	866	679	520	-23.47
440320400	genus Larix (larch)	3,036	2,629	3,005	14.32
Softwood Log Total		5,672	4,540	4,868	7.22
440399390	Wood in the rough, n.e.s.	172	111	63	-34.29
440391000	Wood in the rough, of oak (Quercus spp)	39	38	34	-42.72
Hardwood Log Total		211	149	97	-9.75

Source: Japan Customs (WTA) Total includes other countries.

This increased export tax will probably also affect other Russian log importing countries such as China and Finland. Russia exported \$2.9 billion of logs in 2005 and 46 percent went to China, 22 percent to Finland, and 13 percent to Japan. A total of 81 percent of Russian logs went to these three countries.

http://www.fas.usda.gov/ffpd/Newsroom/Russia_Increases_Export_Tax_on_Logs.pdf

Finland and China were the second and third ranked countries in terms of glulam exports to Japan last year (Table. 3). Since the material for Chinese glulam is mostly Russian species such as larch for posts and red pine for beams, China may shift the inputs for glulam from Russian to others materials such as Canadian and Alaskan species. Since those log price are higher than Russia's, it is expected that the price of these products will increase. Austria and Finland primarily produce beams for Japan using European red pine so the effect of the Russian tax increase on Finnish products should be minimal.

Tab. 3 Japan Glulam Imports 2006			
Country	Volume 1,000m3	06/05 %change	Price Yen/m3
Austria	246	109.2	47,523
Finland	195	141.0	51,017
China	170	112.0	49,443
Sweden	60	95.1	50,422
Estonia	48	904.8	51,352
Russia	35	121.0	44,479
Total	806	120.0	46,193

Source: Ministry of Finance, Total includes other countries.

Illegal Logging

This higher tax rate may encourage illegal logging by increasing incentives to evade the export tax. There is no official data but it is estimated that illegal logging is likely on 20-50 percent of Russian wood exports, and China is one of the major destinations. For more details please refer GAIN RS4043 titled "Outlook for Production and Trade of Forest Products in the Russian Far East 2004" , which is available at:

<http://www.fas.usda.gov/gainfiles/200409/146107577.pdf>

The WWF website says in an unconfirmed report that 40 percent of logs exported from Far East Russia to Japan could be illegally harvested. They also said that imports of lumber and furniture to Japan made from illegal Russian logs processed in China seemed to increase recently. The volumes involved were still uncertain.

The Forestry Minister at the Russian state of Khabarovsk together with the Far East Wood Export Association submitted a petition to the Ministry of Resource Utilization in Moscow asking them to limit the export tax rate to no more than 25 percent at the end of 2012. The reaction of the Ministry is unknown and so Japanese industries are now waiting to see what the Russian Government will do.